

## Message Text

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46

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 OPIC-03 AF-06 IO-11 OMB-01

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00 EB-07

FRB-03 TRSE-00 XMB-02 CIEP-01 LAB-04 SIL-01 AGR-05

STR-04 CEA-01 /113 W

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P R 091544Z JAN 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 5582

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS 1152

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

USMISSION NATO

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E.O. 11652: N/A

TAGS: ECON PINT, PO

SUBJ: COUNCIL OF MINISTERS DEFENDS AUSTERITY PROGRAM

SUMMARY: COUNCIL OF MINISTERS COMMUNIQUE OF JANUARY 8 DEFENDED  
GOP'S AUSTERITY MEASURES AS COURAGEOUS, AND ATTACKED EARLIER  
DELAYS BY MANY OF GOVERNMENT'S CURRENT CRITICS. IT CLAIMED PAY-  
MENT OF INDEMNIZATION FOR NATIONALIZATIONS IS NECESSARY TO  
RESTIMULATE VITAL PRIVATE SECTOR, AND SAID COLLECTIVE BARGAINING  
FREEZE IS TEMPORARY MEASURE UNTIL "SALARY REVISION" SYSTEM IS  
ESTABLISHED. COMMUNIQUE SAID THAT NORMAL SUPPLIES AND STABLE PRICES  
FOR BASIC FOODS WILL BE ACHIEVED THROUGH EXTENSION OF PRICE CONTROLS.

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WE UNDERSTAND GOP PLANS TO ANNOUNCE CONCRETE MEASURES OVER

WEEKEND. END SUMMARY.

1. COUNCIL OF MINISTERS ISSUED JANUARY 8 A LENGTHY COMMUNIQUE REBUTTING CRITICS OF ITS AUSTERITY PROGRAM AND ANNOUNCING ITS INTENTION TO STABILIZE MARKET FOR ESSENTIAL FOODSTUFFS.

2. IN ANSWERING ITS CRITICS, THE SIXTH GOVERNMENT NOTED THAT:

-- AUSTERITY MEASURES ARE MUCH STIFFER AND NEED FOR COLLECTIVE SACRIFICE GREATER BECAUSE FORMER GOVERNMENTS--WHICH INCLUDED GROUPS NOW CONDEMNING PRESENT GOVERNMENT--FAILED TO IMPLEMENT NECESSARY MEASURES.

-- UNPOPULAR MEASURES, WHICH WOULD HAVE BEEN EASY TO POSTPONE UNTIL AFTER ELECTIONS, HAVE ALREADY MADE POSSIBLE SOME FINANCIAL RECOVERY FROM EDGE OF BANKRUPTCY.

-- DISHONEST AUTHORS OF ALARMIST POLITICAL SPECULATION EXACERBATED INFLATIONARY PRESSURES, THEN ACCUSED GOVERNMENT OF CONSPIRING TO DESTROY WORKERS' PURCHASING POWER. IN GENERAL, INFLATIONARY SPURT DUE TO UNSCRUPULOUS SPECULATORS AND LARGE HOLIDAY DEMAND, IN ADDITION TO IMPLEMENTED AND ANTICIPATED AUSTERITY MEASURES.

-- CONTRARY TO ECONOMIC ILLUSIONS CREATED BY EARLIER PERMISSIVENESS, GOVERNMENT LACKS BUDGETARY RESOURCES TO CONTINUE SUPPORTING ALL PRICES. SOON-TO-BE-APPROVED WORKER CONTROL OF PRODUCTION WILL HOPEFULLY ENLIGHTEN WORKERS ABOUT COSTS.

-- COLLECTIVE BARGAINING FREEZE IS TEMPORARY MEASURE PENDING ESTABLISHMENT OF SYSTEM FOR "REGULAR ADJUSTMENT" OF SALARIES WHICH WILL PRECLUDE NECESSITY FOR FUTURE FREEZES. BESIDES, FREEZE WILL END BEFORE DATE SET FOR RENEGOTIATION OF MOST EXISTING LABOR CONTRACTS.

-- GOVERNMENT DECISION TO PAY INDEMNIZATIONS FOR NATIONALIZATIONS WAS NECESSARY TO RESTIMULATE PRIVATE SECTOR, WHICH IN "CURRENT PHASE" IS ABSOLUTELY INDISPENSABLE TO ECONOMIC RECOVERY.

3. COMMUNIQUE OUTLINED FOLLOWING BASIC IMPERATIVES:

-- ADDITIONAL AND STRUCTER PRICE CONTROLS ON BASIC FOODS.

-- MORE EFFECTIVE GOVERNMENT INTERVENTION.

-- SIMULTANEOUS STIMULATION OF AGRICULTURAL PRODUCTION AND DEFENSE OF CONSUMER.

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-- "RELATIVE" IMPROVEMENT IN FINANCIAL SITUATION FACILITATING NORMAL FOOD SUPPLIES, INCLUDING IMPORTS.

4. TO MEET ABOVE NEEDS, COMMUNIQUE ANNOUNCED THAT GOVERNMENT WOULD:

-- IMPORT FOODS AND EXPAND STORAGE CAPACITY TO ASSURE NORMAL SUPPLY AND STABLE PRICES.

-- INTENSIFY VIGILANCE AGAINST SPECULATION AND HOARD-

ING. CONSUMERS ASKED TO HELP CHECK ON MERCHANTS AND COMBAT ALARMISM. GOVERNMENT WILL "REVIEW" COMMERCIAL CHANNELS OFTEN RESPONSIBLE FOR ENORMOUS PRICE DIFFERENTIALS.

-- BRING MAJORITY, IF NOT ALL, BASIC FOODSTUFFS UNDER PRICE CONTROLS IN ORDER TO REDUCE PRICES TO "ACCESSIBLE" LEVELS. NO PRICE INCREASES FORESEEN FOR ESSENTIAL FOODS BEYOND THAT ALREADY ANNOUNCED FOR RICE.

5. COMMUNIQUE ANNOUNCED THAT FOLLOWING FOODSTUFFS WOULD BE ADDED TO LIST OF ITEMS SUBJECT TO "INTERVENTION" OR MAXIMUM PRICES: POTATOES, VEAL, PORK, LAMB, GOAT, CHICKEN, EGGS, SAUSAGE, PEAS, BEANS, APPLES, ORANGES, AND ALL SPECIES OF FROZEN FISH.

6. COMMENT: (A) ATTACKS ON GOVERNMENT AUSTERITY MEASURES HAVE BEEN GROWING RAPIDLY. POSTAL WORKERS AND MERCHANT SEAMEN HAVE LAUNCHED LARGELY SUCCESSFUL FRONTAL ATTACKS ON GOVERNMENT'S SALARY FREEZE AND ATTEMPT TO ESTABLISH STANDARD WORK WEEK. GOVERNMENT IS INCREASINGLY CRITICIZED BY HOUSEWIVES DUE TO GROWING SPOT FOOD SHORTAGES (MEAT, BUTTER, EGGS, POTATOES, MILK) AND ROCKETING PRICES. BASICALLY COMMUNIQUE IS ATTEMPT TO JUSTIFY THE HARSHNESS OF GOVERNMENT AUSTERITY MEASURES AND MUTE CONSUMER COMPLAINTS BY PROMISING TO CONTROL A MARKET THAT SEEMS TO HAVE GONE WILD SUDDENLY. CABINET SECRETARY SA MACHADO TOLD DCM JAN 9 THAT CABINET WILL BE CALLED INTO SESSION TONIGHT WITH AIM OF ANNOUNCING CONCRETE MEASURES OVER WEEKEND. (B) STATEMENTS ON COLLECTIVE BARGAINING FREEZE TEND TO CONFIRM PRIVATE GOP STATEMENTS THAT IT IS STUDYING ESTABLISHMENT OF SALARY INDEXING SCHEME.  
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## Message Attributes

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**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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**Review Content Flags:**  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26 MAR 2004 by izenbei0>; APPROVED <15 APR 2004 by morefirh>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Subject:** COUNCIL OF MINISTERS DEFENDS AUSTERITY PROGRAM SUMMARY: COUNCIL OF MINISTERS COMMUNIQUE OF JANUARY 8  
DEFENDED  
**TAGS:** ECON, PINT, PGOV, PO  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006